

BILL ANALYSIS

By: Montford

S.B. 259
Enrolled

BACKGROUND:

The passage of the federal Tax Reform Act of 1986 has created a new public finance environment in Texas, and has had an impact on the Texas Water Development Board (board). Currently, the board is restricted to a statutory formula for determining its lending rate, regardless of the length of the loan or the source of the funds. The inflexibility of this statutory formula makes it difficult for the board to keep its lending rate in line with market rates in periods of volatile interest fluctuations. The new tax laws also create special difficulties in the area of tax-exempt and taxable bonds.

Currently, Section 17.086, Water Code, restricts the board's ability to invest bond proceeds by requiring surplus funds to be invested in direct obligations of the United States (Treasury bills). The new tax law limits the ability of issuers to earn arbitrage interest on bond proceeds. Thus, a need has been created for the board to have latitude to invest in lower-yielding securities, if necessary, to avoid arbitrage.

PURPOSE:

As proposed, S.B. 259 allows the board to establish its lending rate by policy and to invest the development fund surplus and the interest and sinking fund under the same guidelines currently provided in Section 17.083, Water Code, for the reserve fund, with minor changes.

RULEMAKING AUTHORITY:

It is the committee's opinion that this bill does not grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS:

SECTION 1. Amends Subdivision (13), Section 17.001, Water Code, to change the definition of "lending rate."

SECTION 2. Amends Section 17.083, Water Code, to apply the same restrictions for the investment of the reserve portion of the interest and sinking fund to the remaining portion of that fund and to the development fund.

SECTION 3. Repealer. Water Code: (1) Subdivisions (12) & (13), Section 16.001; (2) Subdivision (8), Section 17.001; (3) Subdivision (14), Section 17.001, and (4) Sections 17.085 & 17.086.

SECTION 4. Emergency clause.
Effective date. Upon passage.